

**REPORT OF THE AUDIT OF THE
BELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Bell County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$2,077,825 from the prior fiscal year. Even though fund balances decreased, there was a cash surplus of \$3,907,375 as of June 30, 2002. Of this amount, \$1,055,467 is reserved for the completion of Local Government Economic Development grant capital projects. Revenues decreased by \$4,930,432 from the prior year while disbursements increased by \$1,052,589 over prior year. The decrease in revenue is attributed primarily to non-recurring bond proceeds that were received during the prior year. The increase in expenditures is attributed primarily to the net effect of an increase in Local Government Economic Development grant disbursements and a decrease in a capital projects interim loan that was paid during the prior year.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$5,870,000. Future collections of \$11,293,698 are needed over the next 26 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$757,967 as of June 30, 2002. Future principal and interest payments of \$933,427 are needed to meet these obligations.

Report Comments:

- Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The fiscal court's deposits were not insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Bill Kelley, Bell County Judge/Executive

Honorable Jennifer Jones, Former Bell County Judge/Executive

Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Bell County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund types, the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Bell County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Bell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity as of June 30, 2002, of Bell County, Kentucky, and the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bill Kelley, Bell County Judge/Executive
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Members of the Bell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2003, on our consideration of Bell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Bell County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discuss the following report comments:

- Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 8, 2003

BELL COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Jennifer Jones	County Judge/Executive
Arthur Blevins	Magistrate
John D. Brock	Magistrate
David E. Gilbert	Magistrate
William Kelley	Magistrate
Andy Williams	Magistrate

Other Elected Officials:

John Golden	County Attorney
James J. Hoskins	Jailer
Joan Asher Cawood	County Clerk
Charles Green	Circuit Court Clerk
Harold Harbin	Sheriff
Geraldine Jeffers	Property Valuation Administrator
Clyde Creech	Coroner

Appointed Personnel:

Sharon Taylor	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

BELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	<u>\$ 2,078,536</u>	<u>\$ 1,295,882</u>	<u>\$ 508,030</u>
Total Assets	<u>\$ 2,078,536</u>	<u>\$ 1,295,882</u>	<u>\$ 508,030</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Lease Obligation (Note 4)	\$	\$ 27,990	\$
Capital Lease Obligation (Note 5a)	107,000		
Capital Lease Obligation (Note 5b)	48,000		
Capital Lease Obligation (Note 5c)	59,000		
Capital Lease Obligation (Note 5d)	328,177		
Capital Lease Obligation (Note 6)	187,800		
Bond Payments (Note 7)			<u>5,361,970</u>
Total Other Resources	<u>\$ 729,977</u>	<u>\$ 27,990</u>	<u>\$ 5,361,970</u>
Total Assets and Other Resources	<u><u>\$ 2,808,513</u></u>	<u><u>\$ 1,323,872</u></u>	<u><u>\$ 5,870,000</u></u>

The accompanying notes are an integral part of the financial statements.

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Type		
	General	Special Revenue	Capital Projects
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease Obligation (Note 4)	\$	\$ 27,990	\$
Capital Lease Obligation (Note 5a)	107,000		
Capital Lease Obligation (Note 5b)	48,000		
Capital Lease Obligation (Note 5c)	59,000		
Capital Lease Obligation (Note 5d)	328,177		
Capital Lease Obligation (Note 6)	187,800		
Bonds:			
Series 2000 (Note 7)			\$ 5,870,000
Total Liabilities	\$ 729,977	\$ 27,990	\$ 5,870,000
<u>Equity</u>			
Retained Earnings:			
Unrestricted	\$	\$	\$
Fund Balances:			
Reserved		1,295,882	
Unreserved	\$ 2,078,536		
Total Equity	\$ 2,078,536	\$ 1,295,882	\$ 0
Total Liabilities and Equity	\$ 2,808,513	\$ 1,323,872	\$ 5,870,000

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

<u>Proprietary</u> <u>Fund Type</u>	<u>Totals</u> <u>(Memorandum Only)</u>
<u>Enterprise</u>	
\$	\$ 27,990
	107,000
	48,000
	59,000
	328,177
	187,800
	<u>5,870,000</u>
<u>\$ 0</u>	<u>\$ 6,627,967</u>
\$ 25,122	\$ 25,122
	1,295,882
	<u>2,078,536</u>
<u>\$ 25,122</u>	<u>\$ 3,399,540</u>
<u>\$ 25,122</u>	<u>\$ 10,027,507</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2002

	<u>General Fund Type</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 7,989,043	\$ 1,920,383	\$ 946,925	\$ 444,012
Other Financing Sources:				
Transfers In	1,071,165	20,000		315,000
Lease-Purchase Proceeds	187,800	187,800		
Total Cash Receipts	<u>\$ 9,248,008</u>	<u>\$ 2,128,183</u>	<u>\$ 946,925</u>	<u>\$ 759,012</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 7,549,727	\$ 1,960,269	\$ 858,635	\$ 745,952
Other Financing Uses:				
Schedule of Other Expenditures	2,323,220			
Transfers Out	1,071,165	70,000		
Bonds:				
Interest Paid	331,720			
Ambulance Lease Principal Payment	11,343			
Lease Principal Payment	50,019	50,000		
Total Cash Disbursements	<u>\$ 11,337,194</u>	<u>\$ 2,080,269</u>	<u>\$ 858,635</u>	<u>\$ 745,952</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (2,089,186)	\$ 47,914	\$ 88,290	\$ 13,060
Cash Balance - July 1, 2001	<u>5,971,439</u>	<u>1,042,267</u>	<u>343,079</u>	<u>140,454</u>
Cash Balance - June 30, 2002	<u><u>\$ 3,882,253</u></u>	<u><u>\$ 1,090,181</u></u>	<u><u>\$ 431,369</u></u>	<u><u>\$ 153,514</u></u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Type	Special Revenue Fund Type				
Local Government Economic Assistance Fund	Ambulance Service Fund	Insurance Premium Tax Fund	Abandoned Mine Land Laurel Fork Water Project Fund	Local Economic Development Fund	State Grant Fund
\$ 648,569	\$ 663,140	\$ 425,933	\$ 385,956	\$ 1,046,795	\$ 342,234
	106,488			629,677	
<u>\$ 648,569</u>	<u>\$ 769,628</u>	<u>\$ 425,933</u>	<u>\$ 385,956</u>	<u>\$ 1,676,472</u>	<u>\$ 342,234</u>
\$ 604,970	\$ 685,694	\$ 319,464	\$ 385,956	\$ 621,005	\$ 336,886
874,677	20,000	106,488			
	11,343				
<u>\$ 1,479,647</u>	<u>\$ 717,037</u>	<u>\$ 425,952</u>	<u>\$ 385,956</u>	<u>\$ 621,005</u>	<u>\$ 336,886</u>
\$ (831,078)	\$ 52,591	\$ (19)	\$	\$ 1,055,467	\$ 5,348
1,234,355	164,991	30			
<u>\$ 403,277</u>	<u>\$ 217,582</u>	<u>\$ 11</u>	<u>\$ 0</u>	<u>\$ 1,055,467</u>	<u>\$ 5,348</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES
For The Fiscal Year Ended June 30, 2002
(Continued)

	Special Revenue Fund Type	Capital Projects Fund Type	
		Hutch Brownies Creek Waterline Fund	Public Properties Corporation: Judicial Building Project Fund
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 1,017,668	\$	\$ 123,338
Other Financing Sources:			
Transfers In			
Lease-Purchase Proceeds			
Total Cash Receipts	\$ 1,017,668	\$ 0	\$ 123,338
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,006,806	\$	\$
Other Financing Uses:			
Schedule of Other Expenditures			2,323,220
Transfers Out			
Bonds:			
Interest Paid			331,720
Ambulance Lease Principal Payment			
Lease Principal Payment		19	
Total Cash Disbursements	\$ 1,006,806	\$ 19	\$ 2,654,940
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 10,862	\$ (19)	\$ (2,531,602)
Cash Balance - July 1, 2001	6,612	19	3,039,632
Cash Balance - June 30, 2002	\$ 17,474	\$ 0	\$ 508,030

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Debt Service Fund Type	
Cumberland	
Gap	
Provisions	
Revolving	
Loan Fund	
\$	24,090
<hr/>	
\$	24,090
<hr/>	
\$	24,090
<hr/>	
\$	24,090
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\$	
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\$	0

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

BELL COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Receipts - Jail Canteen	<u>\$ 18,125</u>
Total Cash Receipts	<u>\$ 18,125</u>
 <u>Cash Disbursements</u>	
Expenditures - Jail Canteen	<u>\$ 6,764</u>
Total Cash Disbursements	<u>\$ 6,764</u>
Excess of Cash Receipts Over Cash Disbursements	 \$ 11,361
Cash Balance - July 1, 2001	<u>13,761</u>
Cash Balance - June 30, 2002	<u><u>\$ 25,122</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund</u>
	<u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 18,125
Payments to Suppliers	<u>(6,764)</u>
Net Cash Provided By Operating Activities	<u>\$ 11,361</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	<u><u>\$ 11,361</u></u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Bell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation: Judicial Building Project Fund as part of the reporting entity.

Public Properties Corporation: Judicial Building Project

The Public Properties Corporation: Judicial Building Project (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Bell County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Bell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Bell County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Bell County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Bell County Special Revenue Fund Type includes the following county funds: The Ambulance Service Fund, Insurance Premium Tax Fund, Abandoned Mine Land Laurel Fork Water Project Fund, Local Economic Development Fund, State Grant Fund, and Federal Grant Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds of the Cumberland Gap Provisions Revolving Loan Fund.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Hutch Brownies Creek Waterline Fund and the Public Properties Corporation: Judicial Building Project Fund of the Fiscal Court are reported in the Capital Projects Fund Type. The Public Properties Corporation: Judicial Building Project Fund is classified as a Capital Projects Fund Type as long as it relates to the construction of a new judicial building. After the construction of the facility is completed, this fund will be reclassified to the Debt Service Fund Type.

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Bell County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment, and land that are owned by the county.

D. Legal Compliance - Budget

The Bell County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation: Judicial Building Project Fund (Capital Projects Fund). The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$289,887 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county's name	2,866,189
Uncollateralized and uninsured	<u>289,887</u>
Total	<u>\$ 3,256,076</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Ambulance Capital Lease

On December 1, 1999, the county entered into a lease agreement with GEM Capital Corporation for the purpose of obtaining an ambulance. Terms of the lease agreement stipulate 20 quarterly payments in the amount of \$3,335. As of June 30, 2002, the principal balance remaining was \$27,990. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,339	\$ 12,002
2004	742	12,699
2005	<u>47</u>	<u>3,289</u>
Totals	<u>\$ 2,128</u>	<u>\$ 27,990</u>

Note 5. Waterline Capital Lease Agreements

The county has entered into four capital lease agreements with the Kentucky Association of Counties Leasing Trust Program for the construction of various waterlines. The following is a description of the terms of each lease agreement:

- a) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in October 1993, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2002, the principal balance remaining was \$107,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 5,705	\$ 8,000
2004	5,265	8,000
2005	4,825	8,000
2006	4,361	9,000
2007	3,821	9,000
2008-2012	11,002	53,000
2013	<u>385</u>	<u>12,000</u>
Totals	<u>\$ 35,364</u>	<u>\$ 107,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Waterline Capital Lease Agreements (Continued)

- b) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in May 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2002, the principal balance remaining was \$48,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 2,811	\$ 11,000
2004	2,072	12,000
2005	1,295	12,000
2006	491	13,000
Totals	<u>\$ 6,669</u>	<u>\$ 48,000</u>

- c) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in September 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2002, the principal balance remaining was \$59,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 3,594	\$ 3,000
2004	3,382	4,000
2005	3,133	4,000
2006	2,884	4,000
2007	2,635	4,000
2008-2012	9,181	23,000
2013-2016	1,738	17,000
Totals	<u>\$ 26,547</u>	<u>\$ 59,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Waterline Capital Lease Agreements (Continued)

- d) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in March 1998, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2002, the principal balance remaining was \$328,177. Future lease payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 17,143	\$ 31,000
2004	15,412	33,000
2005	13,573	35,000
2006	11,647	36,000
2007	9,644	38,000
2008-2011	17,077	155,177
Totals	<u>\$ 84,496</u>	<u>\$ 328,177</u>

Note 6. Voting Machine Capital Lease Agreement

The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program during January 2002. The lease proceeds were used to acquire 40 voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2002, the principal balance remaining was \$187,800. Future lease payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 7,037	\$ 34,900
2004	5,597	36,200
2005	4,105	37,500
2006	2,560	38,800
2007	957	40,400
Totals	<u>\$ 20,256</u>	<u>\$ 187,800</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Long Term Debt

On July 1, 2000, the Bell County Public Properties Corporation issued bonds in order to construct the Farmer Helton Judicial Building. On the same day, the Bell County Public Properties Corporation, Administrative Office of the Courts, (AOC) and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Judicial Building. The financing plan for the project is as follows:

Bell County and the Public Properties Corporation are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Judicial Building by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2028, but the lease does not legally obligate the AOC to do so.

As of June 30, 2002, the principal balance remaining was \$5,870,000. Future bond payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 329,358	\$ 90,000
2004	324,501	95,000
2005	319,383	100,000
2006	314,001	105,000
2007	308,358	110,000
2008-2012	1,446,652	645,000
2013-2017	1,248,210	850,000
2018-2022	970,641	1,135,000
2023-2027	586,968	1,540,000
2027-2028	83,656	1,200,000
Totals	<u>\$ 5,931,728</u>	<u>\$ 5,870,000</u>

BELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 8. Commitments and Contingencies

In August 1999, Bell County received a Single-County Local Government Economic Development Fund Grant in the amount of \$800,000, which was assigned to the Bell County Industrial Foundation for disbursement to the Cumberland Gap Provision Company in the form of an \$800,000 loan. This loan was for a period of ten (10) years at three percent (3%) interest. Monthly interest only payments shall be due for the first three (3) years of the loan term. At the end of such three (3) year period, up to \$100,000 of the principal amount of the loan will be forgiven, such amount to be calculated based on the Company's degree of compliance with the terms of the jobs requirement, and the remaining balance shall be amortized at an interest rate of three percent (3%) per annum over the remaining seven (7) years of the loan, to be repaid in equal consecutive monthly payments of principal and interest. Cumberland Gap Provision Company pays the note payments to the Bell County Industrial Development Foundation, which pays the payments over to the county, and the county pays the payments over to the Kentucky Economic Development Finance Authority. Upon default of the loan agreement, the Cumberland Gap Provision Company, The Bell County Industrial Foundation, and the Bell County Fiscal Court can be responsible for repayment to the Kentucky Economic Development Finance Authority. As of June 30, 2002, Cumberland Gap Provision Company was in substantial compliance with the terms of the loan agreement.

Principal Balance Due County at June 30, 2002

\$800,000

Note 9. Insurance

For the fiscal year ended June 30, 2002, Bell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Local Economic Development Fund

The ending cash balance of Local Government Economic Development Fund was \$1,055,467 as of June 30, 2002. This amount is reserved for the completion of capital projects. The Department for Local Government authorized certain capital construction projects for local administration from the coal severance tax project plan of House Bill 502. These projects were not completed at fiscal year end. As of July 1, 2001, the grant balance was \$1,015,988. During fiscal year ended June 30, 2002, the county received grant receipts totaling \$1,055,000 and expended grant disbursements totaling \$1,015,521. The ending balance was \$1,055,467 as of June 30, 2002.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

BELL COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 1,618,957	\$ 1,920,383	\$ 301,426
Road and Bridge Fund	913,278	946,925	33,647
Jail Fund	725,281	444,012	(281,269)
Local Government Economic Assistance Fund	1,278,738	648,569	(630,169)
<u>Special Revenue Fund Type</u>			
Ambulance Service Fund	677,600	663,140	(14,460)
Insurance Premium Tax Fund	320,250	425,933	105,683
Abandoned Mine Land Laurel Fork Water Project Fund	390,000	385,956	(4,044)
Local Economic Development Fund	1,070,848	1,046,795	(24,053)
State Grant Fund	356,896	342,234	(14,662)
Federal Grant Fund	1,115,838	1,017,668	(98,170)
<u>Debt Service Fund Type</u>			
Cumberland Gap Provision Revolving Loan Fund	25,000	24,090	(910)
Totals	<u>\$ 8,492,686</u>	<u>\$ 7,865,705</u>	<u>\$ (626,981)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 8,492,686
Add: Budgeted Prior Year Surplus			\$ 1,037,621
Less: Other Financing Uses			<u>(61,343)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 9,468,964</u>

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SCHEDULE OF OPERATING REVENUE

BELL COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPE				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 1,483,988	\$ 1,058,128	\$ 425,860	\$	\$
In Lieu Tax Payments	27,161	27,161			
Excess Fees	80,390	80,390			
Licenses and Permits	31,577	31,577			
Intergovernmental Revenues	5,288,298	2,480,940	2,807,358		
Charges for Services	693,266	46,545	646,721		
Miscellaneous Revenues	174,444	131,749	1,714	16,981	24,000
Interest Earned	209,919	103,399	73	106,357	90
Total Operating Revenue	<u>\$ 7,989,043</u>	<u>\$ 3,959,889</u>	<u>\$ 3,881,726</u>	<u>\$ 123,338</u>	<u>\$ 24,090</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

BELL COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,464,755	\$ 1,748,267	\$ 716,488
Protection to Persons and Property	798,708	756,748	41,960
General Health and Sanitation	186,345	86,901	99,444
Social Services	11,300	10,800	500
Recreation and Culture	78,658	77,158	1,500
Transportation Facilities and Services	48,000	39,016	8,984
Roads	1,051,900	704,172	347,728
Debt Service	36,125	29,539	6,586
Administration	782,215	717,225	64,990
Total Operating Budget - General Fund Type	\$ 5,458,006	\$ 4,169,826	\$ 1,288,180
Other Financing Uses:			
Capital Lease Agreement-			
Principal on Lease			
Hances Creek Waterline	7,000	7,000	
Highway 92 Waterline	10,000	10,000	
Little Clear Creek Waterline	3,000	3,000	
Hutch Brownies Creek Waterline	30,000	30,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 5,508,006</u>	<u>\$ 4,219,826</u>	<u>\$ 1,288,180</u>

BELL COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,199,789	\$ 1,632,061	\$ 567,728
Protection to Persons and Property	918,516	904,273	14,243
General Health and Sanitation	440,000	430,608	9,392
Debt Service	1,999	1,998	1
Capital Projects	289,896	277,784	12,112
Administration	135,758	109,087	26,671
Total Operating Budget - Special Revenue Fund Type	\$ 3,985,958	\$ 3,355,811	\$ 630,147
Other Financing Uses: Ambulance Lease- Principal	11,343	11,343	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 3,997,301</u>	<u>\$ 3,367,154</u>	<u>\$ 630,147</u>

DEBT SERVICE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Debt Service	<u>\$ 25,000</u>	<u>\$ 24,090</u>	<u>\$ 910</u>

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SCHEDULE OF OTHER EXPENDITURES

BELL COUNTY
SCHEDULE OF PUBLIC PROPERTIES
CORPORATION: JUDICIAL BUILDING PROJECT FUND

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Public Properties Corporation: Judicial Building Project Fund</u>
Administrative Fees	\$ 1,750
Construction	<u>2,321,470</u>
Totals	<u><u>\$ 2,323,220</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Bill Kelley, Bell County Judge/Executive
Honorable Jennifer Jones, Former Bell County Judge/Executive
Members of the Bell County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Bell County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 8, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2002-02: The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bell County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- Reference Number 2002-01: Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 8, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Bill Kelley, Bell County Judge/Executive
Honorable Jennifer Jones, Former Bell County Judge/Executive
Members of the Bell County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Bell County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Bell County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bell County's management. Our responsibility is to express an opinion on Bell County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bell County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bell County's compliance with those requirements.

In our opinion, Bell County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Bell County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bell County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 8, 2003

FINDINGS AND QUESTIONED COSTS

BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Bell County.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report. This condition is reported as a material weakness.
3. One instance of noncompliance material to the financial statements of Bell County was disclosed during the audit.
4. No reportable condition disclosed during the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bell County expresses an unqualified opinion.
6. No audit findings relative to the major federal awards programs for Bell County are reported in Part C of this schedule.
7. The programs tested as major programs were: Community Development Block Grant-Stoney Fork Redbird Saylor Hollow Waterline Project Program (CFDA #14.228) and Abandoned Mine Land Reclamation Program-Laurel Fork Waterline Construction Project (CFDA #15.252)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bell County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

Reference Number 2001-1

Lacks Adequate Segregation Of Duties

There is a lack of adequate segregation of duties relating to ambulance mail receipts. This is because one person is solely responsible for opening mail receipts, posting mail receipts, and depositing mail receipts. The entity's diversity of official operations, small size, and budget restrictions present limited options for establishing an adequate segregation of duties. However, having one individual who is responsible for these duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The county should consider delegating some duties to other employees to help strengthen internal controls over ambulance mail receipts. For example, persons who have no access to cash receipts or accounts receivable should open mail and list receipts. Another person could record payments. We recommend that the county develop and implement procedures to help strengthen the internal control structure of ambulance mail receipts.

Former County Judge/Executive Jennifer Jones' Response:

The treasurer will implement a procedure to divide duties of ambulance clerk.

BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

NONCOMPLIANCES

Reference Number 2001-2

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On June 30, 2002, \$289,887 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Former County Judge/Executive Jennifer Jones' Response:

The treasurer has been informed of the need for an additional pledge from bank and has already received it.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Direct Program:		
Pine Mountain Park Amphitheater Project (CFDA #14.unkown)	Not Available	\$ 204,325
Passed-Through State Department for Local Government:		
Community Development Block Grants- Stoney Fork Redbird Saylor Hollow Waterline Project Program (CFDA #14.228)	Not Available	<u>798,021</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 1,002,346</u>
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources:		
Abandoned Mine Land Reclamation Programs- (CFDA #15.252)	Not Available	385,956
Passed-Through State Department for Local Government:		
Federal Land and Water Conservation Program (CFDA #15.916)	Not Available	<u>4,461</u>
Total U.S. Department of the Interior		<u>\$ 390,417</u>

BELL COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	\$ 2,035
Snow Removal (CFDA #83.516)	Not Available	<u>66,554</u>
Total U.S. Federal Emergency Management Agency		<u>\$ 68,589</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 1,461,352</u></u>

BELL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bell County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

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SUMMARY OF PRIOR AUDIT FINDINGS

BELL COUNTY
SUMMARY OF PRIOR AUDIT FINDINGS

For The Fiscal Year Ended June 30, 2002

1998 - FINDING NO. 1

Condition:

This finding was a reportable condition stating that the county did not comply with all of the terms of the grant agreement. Specifically, it came to the auditor's attention that seven trailers were purchased from the owners and subsequently returned to them at no cost. According to the grant program administrative handbook, the trailers should have been demolished, unless an alternative was included in the application's scope of work and approved by the State Hazard Mitigation Team and FEMA. No such alternative was included or approved.

Recommendation:

The auditors recommended that all terms of the grant agreement be complied with. Furthermore, the auditors recommended that amendments be obtained for any deviations from the terms of future grant agreements.

Current Status:

No similar findings were noted in the 2002 audit. On October 9, 2000, the county received a response to the audit finding. The response states that both the Division of Emergency Management, Commonwealth of Kentucky, and the Federal Emergency Management Agency (FEMA) have determined that these funds must be refunded or the mobile homes returned to the county for demolition. On April 30, 2002, the county has responded by repaying \$27,753 of disallowed grant expenses. In addition, the county repaid \$638 for disallowed administrative funds. The county's response fully resolves this prior audit finding.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

BELL COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

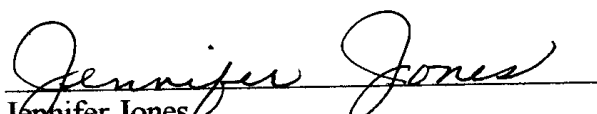
CERTIFICATION OF COMPLIANCE


LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

BELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Bell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Jennifer Jones
Former County Judge/Executive


Sharon Taylor
County Treasurer

